

TOPIC: CCHE RECOMMENDATION ON THE FUNDING ALLOCATION FORMULA

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I. SUMMARY

C.R.S. 23-18-303.5 grants the Commission the ability to recommend funding per the funding formula. This agenda item presents a brief history of the use of the H.B. 20-1366 formula thus far as well as a summary of governing board discussions on a recommendation for the formula for FY 2022-23 for the Commission's consideration.

II. BACKGROUND

Use of the 1366 Funding Allocation Formula in Fiscal Year 2021-22

H.B. 20-1366 established a new funding allocation formula for higher education. Fiscal Year 2021-22 is the first year in which funding to institutions of higher education is allocated via the formula established by HB20-1366. Allocations were made via both step one and step two of the formula. Step one allocates base-building funding based on Strategic Plan goals, institutional needs, base funding concerns, specific institutional projects, and funding related to specific populations, while step two funding is based on performance in Strategic Plan categories. Attachment A contains additional details on use of the funding formula in FY 2021-22.

The bulk of model funding to governing boards is calculated through step two of the formula. In this step, each category of performance is assigned a weight. Next, each metric is measured using a series of calculations that first look at a governing board's change in performance over time, then compares each governing board's change in performance to the change at other institutions statewide. The eight metrics included in step two of the formula are designated in statute and include:

- Resident enrollment;
- Credential production;
- Enrollment of Pell-eligible students as a proportion of a governing board's total student population;
- Enrollment of students included in the Department's race and ethnicity metric (which includes African American or Black, Hispanic or Latinx, American Indian or Alaska Native, and Two or More Races when at least one of the races is one previously listed) as a proportion of a governing board's total student population;
- Retention rate;
- Graduation rate within 100% of time;

- Graduation rate within 150% of time; and,
- Enrollment of first-generation students as a proportion of a governing board's total student population.

Step one of the formula allocates base-building funding based on Strategic Plan goals, institutional needs, base funding concerns, specific institutional projects, and funding related to specific populations. In FY 2021-22, the General Assembly allocated \$41.8 million (approximately 4.5% of total funding through the formula) through five metrics in step one:

- First generation student counts (both the count of full-time equivalent students and headcount), distributed based on the calibrated first-generation student count at each institution as a percentage of calibrated first-generation student counts statewide;
- The headcount of students included in the formula's race and ethnicity metric as a percentage of an institution's total resident student headcount, calibrated based on the institution's share of funding in the prior year;
- The headcount of Pell-eligible students as a percentage of an institution's total resident student headcount, calibrated based on the institution's share of funding in the prior year; and
- The successful retention of the groups included in the Department's race/ethnicity metric, allocated via the distribution methodology used in step two.

Step three of the formula is similar to step one and provides the opportunity to allocate additional funding for purposes of making progress toward goals identified in the systemwide strategic planning process or other areas as identified by the Commission. However, funding in step three is one-time as opposed to base-building. Step three has not yet been used.

Institutional Recommendation on Use of the Funding Allocation Formula in Fiscal Year 2022-23

Department staff have been in regular communication with governing boards throughout the summer regarding a recommendation for the funding formula to propose to the Commission.

At its June 3, 2021 meeting, the Commission approved broad language developed in conjunction with the governing boards regarding its recommended use of the formula in FY 2022-23. That language is as follows:

Sustaining current base funding is essential. Beyond that the next critical funding element is supporting minimum core cost increases which align with the state's common policies and recognize inherent inflationary cost increases experienced by all IHE's, with those increases flowing through step 2 of the formula. Beyond that, additional investments in steps 1 and/or 3 should continue to focus on closing equity gaps as outlined in the Strategic Plan. As additional step 1/3 investments are made in the programs and infrastructure needed to serve students, consideration should be given to assessing student outcomes, including their retention and completion, at the appropriate time after investments and initiatives have had adequate time to impact results.

Attachment B includes a demonstration formula (utilizing FY 2021-22 data) that has been circulated for governing board discussion. In step one of this formula, \$10 million is allocated based on the same metrics used by the General Assembly in FY 2021-22, but with different weights. Notably, this formula puts 35% of step one funding through the race/ethnicity retention metric, as opposed to approximately 21% in FY 2021-22.

At the time of writing, the governing boards do not unanimously support the step one metrics and weights as included in Attachment B. One board has indicated that the percentage of funding focused on the retention of students included in the Department's race/ethnicity metric is too high.

However, governing boards *have* indicated broad agreement on the need to fund core minimum costs through step two, regardless of the level or distribution methodology utilized in step one. Step two forms the vast majority of funding going to governing boards. Governing boards have also agreed that AY 2020-21 data should be excluded from step one given the potential impact of COVID-19 on step one metrics.

III. STAFF ANALYSIS

There are several options for the Commission to consider as it develops a recommendation for FY 2022-23 formula allocations.

The Commission could recommend funding as demonstrated in Attachment B, in which the full estimated core minimum cost increase runs through step two, a 14% increase over FY 2021-22 levels, and an additional \$10 million runs through step one (a 1.1% increase). Step one weights in the attached formula are as follows:

Metric	Dollars	Percent of Step One Funding
First Generation FTE	\$1,291,968	16.3%
First Generation Headcount	\$1,291,968	16.3%
Race/Ethnicity Headcount	\$1,291,968	16.3%
Pell Headcount	\$1,291,968	16.3%
Race/Ethnicity Retention	\$2,782,700	35%

The above table includes only funding going to governing boards – the remaining \$2 million increases step one funding to SEPs, LDCs, and ATCs at the same rate as overall step one funding. The total funding increase through the formula under the governing boards' recommendation, including through step one and step two, amounts to \$140.6 million. This represents a 15.1 percent increase over the FY 2021-22 amount.

If Commissioners want to reduce the amount of funding in step two, the Commission could recommend tuition increases in conjunction with General Fund investments. The below table demonstrates how increases in tuition could reduce the level of General Fund needed to meet core minimum cost increases at the governing boards (including SEPS). Core minimum cost increases are estimated to be \$125.6 million in FY 2022-23.

Tuition % Increase	Tuition \$ Increase	General Fund \$ Increase	General Fund % Increase
0.0%	-	\$125,584,097	14.0%
1.0%	\$24,082,912	\$101,501,185	11.3%
2.0%	\$48,165,824	\$77,418,273	8.6%
3.0%	\$72,248,735	\$53,335,362	6.0%

Finally, Commissioners could recommend adjustments to weightings or metrics in step one. As noted earlier in this agenda item, at the time of writing one governing board has expressed reservations related to the race/ethnicity retention metric of step one. They indicated that reducing the weighting of that metric would be preferable.

IV. STAFF RECOMMENDATIONS

The Department's recommendation will be tied to the Governor's budget request. As the Governor's budget request is not public until November 1st, staff does not have an official recommendation at this time. However, given the amount of federal and state funding allocated to institutions in FY 2021-22, staff believe it is unlikely that a funding recommendation covering core minimum costs fully with General Fund would move forward. The Commission could consider a proposal that includes a tuition allowance to reduce the amount of General Fund required to meet core minimum costs.

V. STATUTORY AUTHORITY

Higher Education Funding Allocation Formula:

C.R.S. § 23-18-303.5

(2) Ongoing additional funding. Prior to calculating performance funding recommendations pursuant to subsection (4) of this section, the commission, in conjunction with the department and in collaboration with the governing boards, may recommend an additional amount of funding pursuant to this subsection (2) for an institution, which amount is ongoing base funding for the receiving institution and is included in the calculation of funding pursuant to this part 3 in subsequent state fiscal years. The commission may recommend an additional amount of funding for the following purposes:

(a) To increase appropriations over the previous state fiscal year in order to make progress toward master plan goals, which may include addressing base funding disparities or funding priorities not addressed through the performance funding metrics. The commission shall focus its recommendations on broad institutional, systemwide, or state policy goals.

(b) (I) To recognize an institution's additional costs related to or associated with educating and providing services to resident first-generation undergraduate students.

(II) If the commission recommends additional funding for an institution or institutions pursuant to this subsection (2)(b), funding is calculated for an institution by dividing the institution's resident first-generation undergraduate student head count, based on the most recent census data collected by the department pursuant to section 23-18-302 (12)(b), by the institution's overall resident undergraduate student population head count from the fall census, and then multiplying the quotient by the institution's resident first-generation undergraduate student head count, resulting in the institution's "calibrated first-generation undergraduate student head count". An institution's percentage share of additional funding pursuant to this subsection (2)(b) is then determined by dividing the institution's calibrated first-generation undergraduate student head count by the sum of the calibrated first-generation undergraduate student head counts for all institutions that receive additional funding pursuant to this subsection (2)(b).

(3) Temporary additional funding. After calculating funding recommendations pursuant to subsections (2) and (4) of this section, the commission, in conjunction with the department and in collaboration with the governing boards, may recommend an additional amount of temporary funding pursuant to this subsection (3) for an institution for purposes of making progress toward goals identified in the systemwide master planning process set forth in section 23-1-108 or other areas as identified by the commission. Additional funding received pursuant to this subsection (3) must be allocated for a specific period of time, is not ongoing base funding, and is not included in the calculation of funding pursuant to this part 3 in subsequent state fiscal years or in the calculation of the total state appropriation made pursuant to this part 3.

(4) Performance funding metrics. (a) After calculating funding recommendations pursuant to subsection (2) of this section, the commission, in conjunction with the department and in collaboration with the governing boards, shall calculate performance funding for each governing board based on the rate of change over time in the performance of the institutions overseen by the governing board on the performance funding metrics specified in subsection (4)(b) of this section. The recommendation for performance funding may reflect a change in the total state appropriation, less the amount appropriated pursuant to subsection (3) of this section, from the preceding state fiscal year.

C.R.S. § 23-18-306

(1) (a) For the 2021-22 state fiscal year and each state fiscal year thereafter, the department and commission shall submit a budget request by November 1 of each year that include:

(i) a detailed description of requests for additional ongoing and temporary funding pursuant to section 23-18-303.5 (2) and (3) and recommendations for additional funding, if any; and

(ii) recommendations for:

(a) changes in the amount of performance funding pursuant to section 23-18-303.5 (4), if any;

(b) the percentage allocation of performance funding among the performance funding metrics specified in section 23-18-303.5 (4)(b);

(c) additional funding for fee-for-service contracts pursuant to section 23-18-304, if any; and

(d) tuition spending authority for the state institutions of higher education.

ATTACHMENT(S):

Attachment A: FY 2021-22 Formula Allocations

Attachment B: Sample Formula Allocations Based on Governing Board Discussions (prior-year data)